

STATE OF SOUTH CAROLINA

(Caption of Case)

IN THE MATTER OF:

South Carolina Electric & Gas Company's Request  
for Approval of Demand Side Management Plan  
Including a Demand Side Management Rate Rider  
and Portfolio of Energy Efficiency Programs

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2009 - 261 - E

(Please type or print)

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**DOCKETING INFORMATION** (Check all that apply)

- ☐ Emergency Relief demanded in petition      ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☐ Other:

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| <input checked="" type="checkbox"/> Electric         | <input type="checkbox"/> Affidavit                 | <input type="checkbox"/> Letter                            | <input type="checkbox"/> Request                   |
| <input type="checkbox"/> Electric/Gas                | <input type="checkbox"/> Agreement                 | <input type="checkbox"/> Memorandum                        | <input type="checkbox"/> Request for Certification |
| <input type="checkbox"/> Electric/Telecommunications | <input type="checkbox"/> Answer                    | <input type="checkbox"/> Motion                            | <input type="checkbox"/> Request for Investigation |
| <input type="checkbox"/> Electric/Water              | <input type="checkbox"/> Appellate Review          | <input type="checkbox"/> Objection                         | <input type="checkbox"/> Resale Agreement          |
| <input type="checkbox"/> Electric/Water/Telecom.     | <input checked="" type="checkbox"/> Application    | <input type="checkbox"/> Petition                          | <input type="checkbox"/> Resale Amendment          |
| <input type="checkbox"/> Electric/Water/Sewer        | <input type="checkbox"/> Brief                     | <input type="checkbox"/> Petition for Reconsideration      | <input type="checkbox"/> Reservation Letter        |
| <input type="checkbox"/> Gas                         | <input type="checkbox"/> Certificate               | <input type="checkbox"/> Petition for Rulemaking           | <input type="checkbox"/> Response                  |
| <input type="checkbox"/> Railroad                    | <input type="checkbox"/> Comments                  | <input type="checkbox"/> Petition for Rule to Show Cause   | <input type="checkbox"/> Response to Discovery     |
| <input type="checkbox"/> Sewer                       | <input type="checkbox"/> Complaint                 | <input type="checkbox"/> Petition to Intervene             | <input type="checkbox"/> Return to Petition        |
| <input type="checkbox"/> Telecommunications          | <input type="checkbox"/> Consent Order             | <input type="checkbox"/> Petition to Intervene Out of Time | <input type="checkbox"/> Stipulation               |
| <input type="checkbox"/> Transportation              | <input type="checkbox"/> Discovery                 | <input type="checkbox"/> Prefiled Testimony                | <input type="checkbox"/> Subpoena                  |
| <input type="checkbox"/> Water                       | <input type="checkbox"/> Exhibit                   | <input type="checkbox"/> Promotion                         | <input type="checkbox"/> Tariff                    |
| <input type="checkbox"/> Water/Sewer                 | <input type="checkbox"/> Expedited Consideration   | <input type="checkbox"/> Proposed Order                    | <input type="checkbox"/> Other:                    |
| <input type="checkbox"/> Administrative Matter       | <input type="checkbox"/> Interconnection Agreement | <input type="checkbox"/> Protest                           |  |
| <input type="checkbox"/> Other:                      | <input type="checkbox"/> Interconnection Amendment | <input type="checkbox"/> Publisher's Affidavit             |  |
|  | <input type="checkbox"/> Late-Filed Exhibit        | <input type="checkbox"/> Report                            |  |

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2009-261-E**

In the Matter of:	)	
South Carolina Electric & Gas Company	)	<b><u>SOUTH CAROLINA ELECTRIC &amp;</u></b>
Request for Approval of Demand Side	)	<b><u>GAS COMPANY'S REQUEST FOR</u></b>
Management Plan Including a Demand Side	)	<b><u>THE ESTABLISHMENT AND</u></b>
Management Rate Rider and Portfolio of	)	<b><u>APPROVAL OF DSM PROGRAMS</u></b>
Energy Efficiency Programs	)	<b><u>AND RATE RIDER</u></b>
	)	

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Pursuant to S.C. Code Ann. § 58-37-20 (1976, as amended) and Public Service Commission of South Carolina (“Commission”) Regulation 26 S.C. Code Ann. Regs. 103-819, 103-823 (1976, as amended), and in compliance with Commission Order No. 2009-104(A) entered in Docket No. 2008-196-E, South Carolina Electric & Gas Company (“SCE&G” or the “Company”) hereby (i) submits for review the results of SCE&G’s analysis of potential demand reduction and energy efficiency (“Demand Side Management” or “DSM”) offerings, (ii) requests approval of its proposed suite of DSM programs, and (iii) seeks approval of the establishment of an annual rider to allow recovery of SCE&G’s costs and lost net margin revenue associated with its DSM programs along with an appropriate incentive for investing in such programs.

In support of this filing, SCE&G would respectfully show to the Commission:

**I. INTRODUCTION.**

1. SCE&G is a corporation duly organized and existing under the laws of the State of South Carolina, with its principal offices at 1426 Main Street, Columbia, South Carolina,

29201. The Company is engaged in the business of generating, transmitting, delivering, and providing electricity to public and private energy users for compensation.

2. SCE&G operates an integrated electric utility system that serves over 652,000 customers in 24 counties in central and southern South Carolina. SCE&G's service territory includes the metropolitan areas of Charleston, Columbia, Beaufort, and Aiken and many other smaller cities and towns, and rural areas in South Carolina.

3. The names, titles, addresses and telephone numbers of the persons to whom correspondence or communications relating to this filing should be addressed are as follows:

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4. S. C. Code Ann. § 58-37-20 provides that the Commission may adopt procedures that encourage electrical utilities to invest in cost-effective energy efficient technologies and energy conservation programs. The statute further provides that, if the Commission chooses to adopt such procedures, those procedures must provide incentives and cost recovery for investment in qualifying programs along with recovery of costs and a reasonable rate of return

sufficient to make DSM programs at least as financially attractive as the construction of new generating facilities.

5. S.C. Code Ann. § 58-37-20 further requires the establishment of rates and charges that ensure that the net income of a regulated electrical utility after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

6. As testified in Docket No. 2008-196-E, SCE&G has conducted a “bottom up” DSM program analysis. SCE&G will provide details concerning this DSM analysis and its result in its written, pre-filed testimony in this matter.

7. Since the entry of Order 2009-104(A), SCE&G has conducted extensive outreach to residential, commercial and industrial customers, trade allies, local community and statewide service organizations and energy conservation and environmental advocacy groups in evaluating potential DSM programs.

8. In Order No. 2009-104(A), the Commission directed SCE&G to submit the results of its completed DSM analysis and its proposals for expanded DSM offerings to the Commission for review no later than June 30, 2009.

9. Based on its analysis, SCE&G intends to offer to its customers the suite of cost-effective energy efficient programs and energy conservation programs described below. SCE&G has determined that these programs represent a balanced suite of programs that are reasonably practical from an implementation and customer receptivity standpoint, are technically and economically justified, and have a reasonable likelihood of providing savings to customers and the system.

## **II. SUITE OF DSM PROGRAMS.**

10. The programs proposed to be offered are:

- (a) Residential Benchmarking
- (b) Residential Energy Information Display
- (c) Residential Energy Check-up and Home Performance Audit
- (d) Residential ENERGY STAR® Lighting and Appliance
- (e) Residential New High Efficiency HVAC and Water Heater
- (f) Residential Existing HVAC Efficiency
- (g) Residential ENERGY STAR® New Homes
- (h) Commercial and Industrial Prescriptive
- (i) Commercial and Industrial Custom

11. The following is a brief summary of the DSM programs that SCE&G intends to offer to its customers after the Commission approves the programs:<sup>1</sup>

(a) **Residential Benchmarking**

This program will use advanced benchmarking and customer education and contact techniques to help customers identify, analyze, and act upon potential energy efficiency measures and behaviors. The Company will develop detailed energy consumption benchmarks for monthly and annual energy use. Benchmarking will include the development of peer groups (*e.g.*, homes with similar construction characteristics, of a similar age, in a similar sub-division, and/or with similar occupancy patterns) and the identification of how the participant's energy usage compares relative to its peer group. This will also include integration of consumption data with available databases on building type (assessor's office data), census data, weather data, and/or customer provided information. Combining this information with recommendations on how to improve energy efficiency, the Company will provide both on-line and hard copy (mailed monthly) benchmarking reports to participants. In addition, customers will receive periodic email

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<sup>1</sup> The programs identified in this Application are identified by descriptive functional names. For marketing purposes, however, these programs may be identified by different names when the programs are rolled out to SCE&G's customers.

alarms should their consumption fall outside established ranges. The service will be provided free of charge to customers who elect to participate. Since this approach is relatively new, this program will initially focus on fine-tuning the approach and demonstrating the net savings result.

**(b) Residential Energy Information Display**

This program is designed to address two elements missing from typical customer decision making regarding energy consumption. First, customers often may not know the price of electricity – at least they may not understand that price as an easily referenced figure such as \$/hour of energy consumption in their homes. Second, customers may not typically understand how changes in their activities will change their monthly energy costs. The Residential Energy Information Display program will provide customers with a discounted in-home display which will provide a variety of metrics, including current price of energy being consumed in their home (\$/kWh and/or \$/hour), the cost of energy used in the current month and the variance in cost relative to an energy budget. Depending upon the final in-home display chosen, it may also provide additional information and functionality. The Residential Energy Information Display program will be marketed primarily through direct mail to a targeted set of customers where the SCE&G metering infrastructure is compatible with the in-home display. Participating customers will be charged \$40 for the display (which has an estimated value of approximately \$150), of which \$20 will be refunded once the customer installs and registers the display and SCE&G can validate that it is accurately collecting information. This \$40 charge/\$20 refund will be waived for low-income customers. Customers will also receive educational materials, and a sample will receive a follow-up phone call to provide advice on using the device and assess participant satisfaction. SCE&G will separately track the usage of participants and a control group of non-participants, and will carefully evaluate the savings attributable to the program. Note that

implementation of this program will be dependent on the final identification of an in-home display that meets the Company's technical and cost criteria.

**(c) Residential Energy Check-up and Home Performance Audit**

These programs will encourage homeowners to use a whole-house approach for reducing energy consumption and help establish and train a network of skilled and credible home energy analysts and contractors. The programs offer two levels of home energy evaluations: a quick home energy check-up (Tier 1 Review) and a comprehensive home performance audit (Tier 2 Audit). Customers participating in either the Tier 1 Review or Tier 2 Audit will also be made aware of the other energy efficiency programs and rebates offered by SCE&G, federal and state tax credits, and other known sources of funding and/or technical support. The Tier 1 Review represents a progression and consolidation of the Company's existing residential consultation programs (Value Visit and In-Home Energy Consultation) and will replace these programs. The Tier 1 Review is a visual checkup and "check-off" audit performed by SCE&G staff, as well as a direct installation of low-cost measures, such as installation of up to six compact fluorescent light bulbs ("CFL"), water heater wraps, and pipe insulation as appropriate. Homeowners will be encouraged to follow-up with more comprehensive energy efficiency improvements, such as air and duct sealing or appliance retrofits, or requesting a Tier 2 Audit. The Tier 1 Review is free to customers if they agree to installation of a subset of the direct installation measures and is estimated at a \$250 value. Customers declining the installation of the measures will be charged \$25.

The Tier 2 Audit is a comprehensive Home Performance audit, performed by a qualified independent contractor. The audit is a whole home inspection with diagnostic testing, typically including a blower door and duct blaster test, as well as the use of standardized energy auditing software. After the audit, the contractor reviews its findings with the homeowner and makes

recommendations for energy efficiency improvements. In some cases, auditors will be permitted to provide the recommended improvement, subject to Quality Assurance/Quality Control (QA/QC) and inspection standards set by the Company. Homeowners may follow-up with a variety of projects such as insulation, duct sealing and repair, and high-efficiency HVAC systems, lighting, and appliances. SCE&G will provide incentives equal to approximately 15-25% of the cost of the recommended measures, up to a cap of \$1,500 per home. Incentives approximating 25–40% of the cost of recommended measure, up to a cap of \$2,500 per home will be available for low income customers. The price of the Tier 2 Audit will be set by the participating independent contractors, but it is estimated that contractors will charge \$300-\$600 for the audit, with some contractors rolling the cost into the cost of any recommended improvements. SCE&G will identify and collaborate with HVAC, remodeling, insulation and weatherization contractors as well as Home Energy Rating System (HERS)<sup>2</sup> raters and other trade allies interested in offering home performance services to their customers, and arrange for them to participate in program training.

(d) **Residential ENERGY STAR<sup>®</sup> Lighting and Appliances**

The objective of the Residential ENERGY STAR<sup>®</sup> Lighting and Appliances Program is to increase awareness and purchase of certain ENERGY STAR<sup>®</sup> qualified lighting products and appliances. The program will offer opportunities to all residential customers to purchase a variety of ENERGY STAR<sup>®</sup> qualified products through retail sales channels at discounted prices that

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<sup>2</sup> A home energy rating involves an analysis of a home's construction plans and onsite inspections. Based on the home's plans, the Home Energy Rater uses an energy efficiency software package to perform an energy analysis of the home's design. This analysis yields a projected, pre-construction HERS Index. The HERS Index is a scoring system established by the Residential Energy Services Network (RESNET) in which a home built to the specifications of the HERS Reference Home (based on the 2006 International Energy Conservation Code) scores a HERS Index of 100, while a net zero energy home scores a HERS Index of 0. The lower a home's HERS Index, the more energy efficient it is in comparison to the HERS Reference Home. See [http://www.energystar.gov/index.cfm?c=bldrs\\_lenders\\_raters.nh\\_HERS](http://www.energystar.gov/index.cfm?c=bldrs_lenders_raters.nh_HERS).



reflect an incentive provided by SCE&G. SCE&G will also provide informational, educational, and point-of-purchase materials to increase customer awareness of ENERGY STAR® qualified products.

Customers will receive instant markdowns on qualifying products at participating retailers through the use of in-store coupons. Customers will be required to provide information such that SCE&G can validate that they are indeed SCE&G customers. The initial list of qualifying equipment includes:

- CFL bulbs (standard)
- CFL bulbs (specialty)
- CFL fixtures
- LED night lights
- LED task lights
- ENERGY STAR® Dishwashers
- Room air conditioners

Incentive levels vary based on the measure and the packaging, but are generally between 25% and 75% of the incremental cost of the measure. Other measures may be added over time, under the condition that they are cost effective from the Total Resource Costs (TRC) perspective.

**(e) Residential New High Efficiency HVAC and Water Heater**

This program will provide incentives to eligible customers for the purchase of high efficiency central air conditioners, heat pumps, and non-electric resistance storage water heaters in new construction or upon replacement in existing construction. The program's major goals are to promote high efficiency equipment when customers are in the market to purchase new equipment, along with quality installation of the new high efficiency equipment, including proper sizing of the unit, refrigerant charge, air flow, and duct inspection where applicable. The services will be delivered through a network of independent HVAC and plumbing contractors that are trained in program protocols and participation processes. A recruiting and training

program will be used to inform contractors of the available incentives and program requirements.

Illustrative typical incentives include:

- Central AC system (minimum SEER<sup>3</sup> 14) - \$300
- Air Source Heat Pump system (minimum SEER 14) - \$300
- Ground Source Heat Pump system (minimum EER<sup>4</sup> 19) - \$300
- Any non-electric resistance storage water heater - \$250

SCE&G will develop a schedule of specific incentives providing incentives based on the tonnage and efficiency of the units, including incentives for SEERs above 14. Upon submission of a qualifying incentive application, participants may elect to receive their incentive in the form of a check, or may choose to assign the incentive to their contractor, who will receive a check monthly for all assigned incentives. Over time, SCE&G may also introduce specific requirements for sizing and quality of installation.

**(f) Residential Existing HVAC Efficiency**

This program will provide one-time incentives to eligible contractors and customers to improve the efficiency of existing central air conditioner and heat pump systems. The program's major goals are to assist customers with energy efficient maintenance and repair opportunities. These opportunities include HVAC tune-ups, refrigerant charge and air flow correction, and duct sealing and insulation. SCE&G will also initiate a marketing and education campaign to inform customers of the benefits of these opportunities and of how to participate in the program. The services will be delivered through a network of independent HVAC contractors that are trained in program protocols and participation processes. Illustrative incentives include:

- HVAC Tune-up - \$60
- Duct Insulation - \$150
- Duct Sealing - \$150

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<sup>3</sup> Seasonal Energy Efficiency Ratio.

<sup>4</sup> Energy Efficiency Ratio.

Upon submission of a qualifying incentive application, participants may elect to receive their incentive in the form of a check or may choose to assign the incentive to their contractor, who will receive a check monthly for all assigned incentives.

(g) **Residential ENERGY STAR® New Homes**

The objective of the Residential ENERGY STAR® Homes Program is to accelerate the penetration of ENERGY STAR® qualified homes and the ENERGY STAR® Advanced Lighting Package for new homes. ENERGY STAR® qualified homes must be at least 15% more efficient than homes built to the 2004 International Residential Code (IRC) and often are 20% to 30% more efficient than standard homes. The program will teach builders how to successfully construct, market, and sell energy efficient homes, allowing them to recoup their costs and provide an opportunity to increase profits and homeowner satisfaction. The program will also provide financial incentives to help offset the barrier of increased costs for more energy efficient features in new homes. In addition, incentives will be indirectly provided through the form of a co-op advertising partnership to help increase homebuyer awareness of the value of ENERGY STAR® qualified homes. Incentives will be paid to the builder/developer on a per home basis. Incentives shall initially be set at:

- ENERGY STAR® Home - \$300 (HERS rating of 85)  
\$450 (HERS rating of 80)  
\$600 (HERS rating of 75)
- Additional Advanced Lighting Package (if not used to obtain HERS rating) - \$100
- Non-Electric Resistance Storage Water Heater (if not used to obtain HERS rating) - \$250

SCE&G will also institute a QA/QC process to validate the quality of the homes and energy savings entered into the program.

(h) **Commercial and Industrial Prescriptive**

The primary objective of the Commercial and Industrial Prescriptive Program is to provide an expedited, simple solution for nonresidential customers interested in purchasing common energy efficient technologies. The Program will offer financial incentives according to a standard schedule of incentives and equipment efficiency and performance standards. Typical measures will include high efficiency lighting, lighting controls, motors, HVAC systems, and food service equipment. This program will offer a simplified method to make efficient purchase choices from an established list of common measures without requiring complex analysis or participation rules. SCE&G anticipates modifying the list of qualifying equipment and incentives over time, with the requirement that all measures must consistently pass the TRC test under any reasonable set of assumptions regarding customer usage patterns.

Trade allies will be recruited to participate in training sessions, which will be designed to inform them about program incentives, participation processes, and requirements. Customers will be recruited through program communication and outreach activities, SCE&G account representative referrals, and trade allies. Customers will submit incentive applications and required documentation after installation of qualifying energy efficiency measures has been completed. Incentive applications will be subject to a QA/QC review to ensure all required forms and documentation have been submitted and that incentive calculations are correct. SCE&G will perform pre- and post-installation verifications on a sample of all projects, and will verify all projects over certain size and cost thresholds.

(i) **Commercial and Industrial Custom**

The Commercial and Industrial Custom Program will provide calculated incentives (on a \$/kW and \$/kWh saved basis) to offset the cost of qualifying large energy efficiency projects.

This program is focused upon those technologies or customer applications that are not covered by the prescriptive program. Customers will be recruited primarily through direct outreach activities. Referrals by SCE&G managed-account representatives will also be a key element of customer recruitment. Customers will apply for the program in advance of initiating any work, specifying the nature of the equipment to be replaced (or the equipment that would otherwise be purchased in the absence of the incentive in the case of new construction), calculations identifying the energy and demand to be saved, cost of the work, nature of the operations, and supporting documentation necessary for SCE&G to validate the customer's calculations. SCE&G shall validate the energy savings and cost calculations, and will assess the likelihood that the customer will make the improvements even in the absence of an incentive from SCE&G. Where SCE&G believes that the incentive is crucial in the customer's decision to make the improvements, SCE&G shall calculate a custom incentive unique to each project, ensuring that the project is cost effective from the TRC perspective. SCE&G will pre-inspect a sample of projects to verify pre-installation conditions, and will post-inspect sampled projects to verify the installation and operation of the equipment.

12. SCE&G will not provide incentives for switching from natural gas equipment and appliances to electric equipment and appliances.

13. The estimated impacts and costs of all proposed programs are illustrated in **Table 1**. These estimated impacts and costs are based on estimates of the rates of customer acceptance and participation in the proposed programs; the ability to recruit and train trade allies and performance of trade allies; and other factors. The estimates provided have not been adjusted to reflect the opt-out of any eligible customers. The estimates are by twelve month period from the date that the program is publicly made available to customers, *i.e.*, after approval by the

Commission and after putting in place the personnel, material, trade allies and other resources necessary to successfully market and deliver the programs.

**Table 1. Summary of Program Impacts**

Program	MWh			MW			Program Cost \$M			B/C Test	
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	TRC	PAC
Residential Benchmarking	8,250	16,603	25,061	3.02	6.09	9.19	0.55	0.43	0.44	10.38	10.38
Residential Information Displays	1,662	3,602	5,863	0.27	0.58	0.94	0.71	0.83	0.96	1.62	1.81
Residential Audits (Tier 1 and 2)	2,250	5,668	10,281	0.48	1.21	2.19	2.04	3.09	4.18	1.07	1.12
Residential Lighting and Appliances	24,373	51,293	80,822	3.15	6.64	10.46	3.34	3.64	3.99	1.67	2.50
Residential New HVAC and Water Heat	6,770	15,304	25,645	2.20	5.10	8.72	2.89	3.67	4.56	1.48	1.85
Residential Existing HVAC Efficiency	3,755	11,359	22,908	1.79	5.40	10.90	1.35	2.53	3.85	2.15	4.56
Residential ENERGY STAR Homes	225	681	1,373	0.08	0.24	0.48	0.29	0.34	0.48	1.32	2.04
Commercial & Industrial Prescriptive	36,327	78,380	126,950	4.92	10.61	17.18	2.94	3.10	3.58	3.58	5.96
Commercial & Industrial Custom	19,029	41,057	66,499	2.87	6.19	10.03	2.24	2.42	2.79	3.47	4.74
TOTAL	102,641	223,947	365,402	19	42	70	16.35	20.05	24.84	2.41	3.42

14. Based on the estimated impacts and costs of proposed programs listed in Table 1, and subject to the conditions and limitations discussed in Paragraph 13 above, and uncertainties as to the dates that programs will be approved and ready to offer to customers, SCE&G currently estimates that the initial rate rider request to be effective May 1, 2010, could add approximately \$0.59 per month to the bill of an average residential customer using 1,000 KWH per month.

15. SCE&G currently offers a conservation rate to residential customers, Rate 6, as well as an Interruptible Rate Rider, a Standby Generation Program, several time-of-use rates and a Real Time Pricing Rate. SCE&G intends to continue these rate-related conservation programs. The costs associated with these rate-related programs are not included in the DSM-related cost recovery mechanisms set forth herein.

16. SCE&G requests that the Commission review and approve the suite of DSM programs set forth in this filing. SCE&G also requests that in any orders issued in this docket approving the Company's DSM Programs that the Commission allow SCE&G the flexibility to

modify, expand, amend, terminate and/or add any program to its suite of programs going forward without the requirement to seek prior Commission approval to do so. SCE&G requests that the Commission provide for the filing of annual updates of the Company's suite of programs with the Commission and ORS and determine at the time of such filing whether any formal review proceedings related to these programs are necessary.

### **III. RECOVERY OF DSM EXPENSES AND LOST NET MARGIN REVENUE.**

17. SCE&G further requests that the Commission approve a rate rider that will allow SCE&G to recover the costs incurred in offering DSM programs and an appropriate incentive consistent with S.C. Code Ann. § 58-37-20, the amount of the rate rider to be adjusted annually.

18. The proposed rider will allow SCE&G to recover: (1) all of SCE&G's reasonable and prudent costs incurred in adopting and implementing DSM measures and programs; such costs to be deferred and amortized over a five-year period; (2) an incentive return computed using SCE&G's then-current capital structure and weighted average cost of capital and a three percentage points incentive in addition to SCE&G's currently approved return on equity as applied to the monthly balance of unrecovered DSM expenses; and (3) SCE&G's lost net margin revenue reflecting the projected reduction in demand charges and megawatt hours ("MWH") sales that are calculated to occur as a result of customer participation in each DSM program, such amount to be reset on the date that new rates are implemented as a result of each of SCE&G's successive general retail electric rate proceedings. Exhibit 1 to this Application contains a more detailed discussion of the calculation and the recovery of DSM expenses and lost net margin revenue.

19. SCE&G proposes to allow certain large commercial and industrial customers to opt-out of being subject to DSM cost and expense recovery under certain specified conditions. Exhibit 2 contains the terms and conditions under which such customers would be eligible to opt-out of the application of the DSM rider.

20. Tariff sheets setting out the structure of the rider will be submitted along with prefiled testimony in this matter.

21. SCE&G proposes that the rider be made effective May 1, 2010. SCE&G proposes that the initial revenue requirement to be recovered under the rider be based on the suite of programs as approved in this proceeding and on forecasts of project ramp rates and market penetration that will be developed and refined over the coming months. SCE&G would propose filing the rates and revenue requirements to be recovered under the rider during the period May 1, 2010 through November 30, 2010 on or before January 31, 2010. SCE&G requests that it be allowed to true up recovery of lost net margin revenue and incentive return, each of which is associated with the period from the effective date of the order in this proceeding until May 1, 2010, in its 2010-2011 rate rider filing.

22. SCE&G requests that the Commission provide for the establishment of a DSM Account in which it may defer DSM costs as described in Exhibit 1. SCE&G requests that the DSM deferral account being maintained pursuant to Commission Order No. 2009-231 be merged into this account and the balance added thereto.

23. SCE&G proposes that the rider be adjusted annually beginning with bills rendered on or after the first billing cycle in May thereafter based on a review period from December 1<sup>st</sup> to November 30<sup>th</sup>.



24. SCE&G requests that it be allowed to recompute the revenue required to be recovered through the rider and the resulting rates on an annual basis and to file such adjustments as shall be required with the Commission not less than three (3) months before their effective date for billing. The timing of this filing will allow for public comment and any review of the filing that the Commission or the Office of Regulatory Staff might deem appropriate.

25. The rider for cost recovery and incentives proposed by SCE&G in this filing is consistent with the requirements of S.C. Code Ann. § 58-37-20.

WHEREFORE, South Carolina Electric & Gas Company respectfully requests that the Commission: (1) review and approve SCE&G's proposed DSM programs, (2) authorize SCE&G to modify, expand, amend, terminate or add any DSM program to its suite of programs going forward without the requirement to seek prior Commission approval to do so, (3) establish procedure for the filing of annual updates of the Company's suite of programs with the Commission and ORS, (4) establish and approve procedures as requested herein to encourage SCE&G's investment in cost-effective energy efficient technologies and energy conservation programs, and (5) to approve the establishment of a rate rider to allow recovery of all costs associated with such programs and the recovery of an appropriate incentive for investing in such programs and provide for annual adjustment of the rate rider as described herein.

**[Signature on next page]**

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Attorneys for South Carolina Electric & Gas Company

Date: June 30, 2009.

## **EXHIBIT 1**

### **South Carolina Electric & Gas Company Request for Approval of Demand Side Management Plan Including a Demand Side Management Rate Rider and Portfolio of Energy Efficiency Programs Public Service Commission**

**Docket No. 2009-261-E**

#### **Recovery of DSM Expenses, Incentive Return and Lost Net Margin Revenue**

##### **1. Overview**

This Exhibit provides a description of how South Carolina Electric & Gas Company (“SCE&G” or the “Company”) proposes to recover its Demand Side Management (“DSM”) expenses, incentive return and lost net margin revenue using a rate rider applicable to retail electric service. As described below, the rate rider will consist of a charge per kilowatt hour (“KWH”) and will be specifically calculated for each customer class. The rider will be set at a level sufficient to recover:

- a.** DSM program expenses and overheads amortized over five years,
- b.** An incentive return for investing in DSM programs and
- c.** Lost net margin revenue forecasted to occur as a result of the DSM programs reducing demand charges and megawatt hour (“MWH”) sales between each retail electric rate case.

In establishing the amount of revenue to be recovered under the rate rider, the amount of lost net margin revenue will be forecasted by rate schedule on an annual basis using data for actual market penetration for each DSM measure. Any difference between the prior year’s forecasted amount and the amount calculated based on actual market penetration during the year will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

##### **2. Annual Adjustment**

The rates for each customer class will be recalculated and adjusted annually. Each year, on or about January 31<sup>st</sup>, the Company proposes to file the rate adjustments for each customer class with the Commission. The Company would not implement the proposed adjustments until at least three months after filing to allow for public comment and any review of the filing that the Commission might deem appropriate. The Company proposes that the initial review period run from the effective date of the rate rider proposed in this docket to November 30, 2010. Thereafter, the Company proposes an annual review period of December 1<sup>st</sup> through November 30<sup>th</sup>, provided that SCE&G must notify the Commission and ORS in writing prior to any change or adjustment in the review period.

### **3. The Regulatory Asset Account for DSM Expenses.**

- a.** DSM expenses shall include all costs of formulating, administering, publicizing, delivering, measuring, tracking and analyzing DSM programs, including administrative and general costs and overheads, legal and consulting costs, costs of advertising and promotion, training and recruitment costs, costs of incentives and payments to third parties, costs of resolving or settling claims and disputes, and other costs related to these programs. SCE&G will create a regulatory asset on its books for DSM expenses (“DSM Account”).
- b.** As DSM expenses are recognized, they will be booked as a debit to the DSM Account.
- c.** SCE&G will credit the DSM account monthly to reflect the 5-year amortization recovery of covered DSM expenses.

### **4. Cost Recovery**

The DSM expenses, incentive return and lost net margin revenue will be calculated and recovered under the rate rider as follows:

#### **a. Calculation of Lost Net Margin Revenue**

Lost net margin revenue will be calculated for each prospective review period based on the forecasted level of customer participation in each DSM measure. Lost net margin revenue will reflect the reduction in demand charges and MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures. The reductions in MWH sales will be computed using the data contained in the then-current version of the South Carolina DSM Energy Savings Library<sup>1</sup> or such successor data source as the Company may reasonably designate, supplemented as required where data not found in the library is needed to make the necessary calculations. Margin revenue will equal electric revenue by rate schedule less fuel costs and will be computed on a per KWH basis.

Lost net margin revenue associated with the upcoming period will be calculated based on forecasted participation rates. At the end of each review period, the lost net margin revenue for that review period will be recalculated using actual market penetration data. In making these recalculations, actual penetration rates will be converted to reductions in MWH sales using data contained in the applicable DSM data library. Any differences in the calculation of forecasted lost net margin revenue to actual will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period. The Company will

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<sup>1</sup> In 2008 Morgan Marketing Partners (MMP) was retained jointly by SCANA, Duke Energy, Progress Energy and Santee Cooper to develop a “Measures Library” of technologies and building simulations that would provide estimates of energy and demand impacts related to numerous DSM measures. MMP had developed a similar DSM Measures Library for North Carolina. The scope of the work included four weather stations, ten commercial building types and sixteen configurations of new and existing residential homes. MMP and its subcontractors, Franklin Energy Services, Integral Analytics Inc. and Building Metrics Inc., developed the measures database and MMP provided it in its final form to SCANA in 2009.

track the difference between actual lost revenue and forecasted lost revenue in a separate regulatory asset or liability account.

**b. Resetting of Lost Net Margin Revenue**

The amounts reflected in the rate rider for lost net margin revenue will be reset each time the Company implements new retail electric rates as a result of a general retail electric rate case. Upon implementation of the new retail electric rates, the charges to be collected under the rider will be recalculated to reflect the fact that under standard rate making methodologies the lost net contribution to margin revenue as of the end of the test period will be reflected in the new rates being set.

In recalculating the revenue requirement to be collected under the rider after new electric rates are ordered, the existing revenue requirement being collected under the rider will be reduced by the lost net margin revenue forecasted as of the close of the test year. This amount will be calculated to equal the participation rates for DSM measures at the close of the test period multiplied by the KWH savings per participant reflected in the applicable DSM data library for that measure.

Additional lost net margin revenue will occur as new participants are enrolled in the DSM programs after the close of the test period. The additional lost net margin revenue will not be deducted from the revenue requirement to be recovered through the rider. Adjustments in the rider associated with the implementation of new retail rates will not change the schedule for annual reviews of the rider.

**c. Calculation of the Amount to Be Recovered by the Rate Rider**

The amount of DSM expenses, incentive return and lost net margin revenue to be recovered through the rider shall be computed as follows.

- i. Amortization of DSM Regulatory Asset** – SCE&G will amortize, over five (5) years, the balance held in the DSM Account at the close of each review period.
- ii. Incentive Return** – SCE&G will compute an incentive return factor to be applied to the projected balance held in the DSM Account for the up-coming review period based on a projection of the unrecovered balance in that account as of the close of each month during the period. The incentive return factor will reflect SCE&G's current capital structure and current cost of debt and equity plus an equity incentive of three percentage points added to Company's Commission-approved return on equity. The sum of these monthly amounts will be adjusted for any over-recovery or under-recovery of the return in the immediate past period. The past period over-recovery or under-recovery will be measured based on the actual monthly balances in the DSM Account during the period.
- iii. Lost Net Margin Revenue** – Lost net margin revenue for the review period, computed as described above, and including any adjustment for over-

forecasting or under-forecasting in the prior period, will be included in the revenue requirement to be recovered.

**d. Allocation of Revenue Requirement**

SCE&G will track participation in DSM programs by customer class and rate. SCE&G will assign direct DSM program costs and lost net margin revenue accordingly. General and administrative costs and other indirect DSM costs will be allocated to customer classes in the same proportions that direct costs are allocated, unless the Company identifies a specific justification to do otherwise. SCE&G will also track receipts under the DSM rider by customer class and rate. Rider adjustments will be made based on these allocations.

## **EXHIBIT 2**

### **South Carolina Electric & Gas Company Request for Approval of Demand Side Management Plan Including a Demand Side Management Rate Rider and Portfolio of Energy Efficiency Programs Public Service Commission**

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#### **Opt-Out Provision for Large Commercial and Industrial Customers**

1. Large commercial and industrial customers may be eligible to opt-out of DSM programs and costs so long as the conditions set forth below are being met. Eligible customers are those business entities using the Company's standard electric service with either: (1) an average of monthly billing demands over the past 12 months ("Average Demand") that is greater than 3500 kW at a single contiguous service site, or (2) for at least two non-contiguous premises, an Average Demand that is greater than 6000 kW with each premises having Average Demand of 100 kW. For the purpose of meeting the threshold in (2), a business entity is defined as a single corporation, partnership, company or individual owner and does not include individual franchise units of a business nor subsidiaries operating as a separate corporation or partnership. This provision is not available to entities which form an association or similar organization and is not available for residential customers or resale service.
2. Customers may not selectively opt-out of individual programs, but must elect to opt-out of all programs as a group for all eligible accounts.
3. Customers wishing to opt out of DSM programs and recovery of DSM costs shall certify in writing to the Company that they have conducted an energy efficiency audit within the past three years and are implementing measures that are at least equivalent in energy and demand savings to those anticipated under the Company's DSM program for the applicable customer class. Certifications shall be valid for 12 months.
4. Reductions in usage due to on-site generation, co-generation, shut down or reduction in usage of facilities, shifting of production to another site, or any other reduction not due to an increase in the efficiency of the equipment or processes per unit of output shall not qualify as an element of a Customer's energy efficiency plan.
5. Any Customer who participates in one of the Company's programs, or whose request to opt out is denied or discontinued, may not seek to opt-out for a period equal to the amortization period used by the Company in the recovery of program costs. Customers who opt-out but later elect to participate in one of the Company's programs may do so upon application to the Company. If acceptable to the Company, the Customer may participate in the Company's programs, but may not apply to opt-out again for a period at least as long as the amortization period.